INFORMED BUDGETEER

FINAL 2003 APPROPRIATION BILLS COMPARED TO 2002
(Budget authority, in billions of dollars)

Subcommittees	*2002 a/*	*Senate Appropriation Bills b/*	*% Increase or Decrease*
Agriculture	17.171	17.995	4.8%
CJS	42.995	41.387	-3.7%
Defense	0.560	0.574	2.5%
Nondefense	42.435	40.813	-3.8%
Defense (Enacted)	334.113	354.830	6.2%
DC	0.607	0.512	-15.7%
Energy and Water	25.334	26.164	3.3%
Defense	15.164	15.898	4.8%
Nondefense	10.170	10.266	0.9%
Foreign Ops	16.433	16.300	-0.8%
Interior	19.135	19.057	-0.4%
Labor, HHS	127.659	133.399	4.5%
Legislative	3.254	3.360	3.3%
Mil Con (Enacted)	10.604	10.499	-1.0%
Transportation c/	23.095	21.200	-8.2%
Defense	0.440	0.340	-22.7%
Nondefense	22.655	20.860	-7.9%
Treasury, Postal	18.515	18.326	-1.0%
VA, HUD	95.758	90.350	-5.6%
Defense	0.153	0.144	-5.9%
Nondefense	95.605	90.206	-5.6%
Unallocated Reductions	-0.350	---	
Defense	-0.196	---	
Nondefense	-0.154	---	
TOTAL, Divisions A - K	734.323	753.379	2.6%
Defense	360.838	382.285	5.9%
Nondefense	373.485	371.094	-0.6%
Division M			
Defense Programs	---	10.000	
Division N			
Election Reform – Title I	---	1.500	
Wildland Fire Management – Title III	---	0.825	
Fisheries Disasters – Title V	---	0.100	
0.65 % ATB reduction on accounts (with exceptions) in 11 bills – Title VI	---	-2.622	
Subtotal – Division N	---	-0.197	
Division P			
U.S.-China Commission	---	0.002	
TOTAL, Discretionary	734.323	763.184	3.9%
Defense	360.838	392.175	8.7%
Nondefense	373.485	371.009	-0.7%
One-time, non-recurring projects d/	15.946	---	
Defense	1.338	---	
Nondefense	14.608	---	
TOTAL, Discretionary less one-time	718.377	763.184	6.2%
Defense	359.500	392.175	9.1%
Nondefense	358.877	371.009	3.4%
H.J. Res. 2 TOTAL, without enacted Defense and Mil Con		397.855	
Defense		26.846	
Nondefense		371.009	
Memo:			
Mandatory Items in Division N			
Title II - Agriculture Drought Relief		3.084	
Title IV - Medicare Physicians		0.800	
Title IV - Rural Hospitals		0.250	
Title IV - Welfare Payments to States		0.098	
Title IV – QI-1 Program		0.025	
Title VII – Bonneville Power Admin.		---	
Total		4.257	
TOTAL, with Mandatories		**767.441**	
H.J. Res. 2 TOTAL, without enacted Defense and Mil Con		**402.112**	

Source: CBO, SBC Republican Staff

NOTES: a/ The 2002 figures include the levels enacted in the FY 2002 appropriations bills, as well as the $24.2 billion in BA in P.L. 107-206 (the Emergency Supplemental Appropriations and Rescissions, 2002), as estimated by CBO.

b/ This represents Divisions A – P of the Conference Report on H.J. Resolution 2 (Making Further Continuing Appropriations for the FY 2003, and for Other Purposes), as well as the FY 2003 Defense (P.L. 107-248) and Military Construction (P.L. 107-249) appropriation bills. These bills also include $25.385 billion in advance appropriations, $2.227 billion more than the $23.158 billion in advances from the FY 2002 appropriation bills.

c/ Includes mass transit budget authority of $1.445 billion.

d/ The $15.946 billion in one-time, nonrecurring projects and activities were identified in Attachment C of OMB Bulletin 02-06, Supplement No. 1, dated October 4, 2002.

- On February 20, the President signed into law (P.L. 108-10) legislation that provides full-year appropriations for most of the government for 2003. The table at left summarizes the 11 appropriation bills combined into the omnibus package, along with the other two bills previously enacted, to provide a picture of 2003 discretionary funding compared to 2002.

- Looking at the omnibus bill alone, it appears to have met the President's mark of $397.4 billion. (This mark was derived as follows: the $385.9 billion as specified in OMB Director Daniels' February 4th letter to the Appropriations Committee chairmen, adjusted for the President's request of $10 billion for additional defense funds and the Administration's ad hoc agreement to $1.5 billion for election reform, offset by a $0.5 billion "savings" from the USDA's Export Enhancement Program that OMB is scoring but CBO is not.)

- Total discretionary budget authority enacted for 2003 ($763.2 billion) is 6.2% more than in 2002, with a 9.1% increase for defense activities and a 3.4% increase for non-defense programs. (This comparison properly omits $15.9 billion in funding provided in 2002 for one-time recovery activities in response to the 9/11 attacks, which did not need to be repeated in 2003.)

- In addition, the bill included increases for a handful of mandatory programs that do not count against the discretionary total (see table below). For 2003, the $3.1 billion provided for agriculture drought relief accounted for most of the $4.3 billion total mandatory increase. Over the subsequent 10 years, these provisions added to the omnibus bill will cost a net $50.5 billion, with most of the budgetary effects resulting from a $52.8 billion increase in additional Medicare payments to physicians.

Detail on Mandatory Provisions Included in Conference Report on 2003 Omnibus Appropriations Bill
(BA & outlays, in millions of dollars)

		2003	**2004**	**2004-13**
Mandatory				
Division N				
Title 2-Agriculture assistance	BA:	3,084	60	-3,090
	O:	3,137	535	-2,206
Title 4-Medicaid				
Section 401				
TANF	BA:	64	0	0
	O:	71	6	-7
Transitional Medicaid	BA:	34	85	95
	O:	32	80	95
Total, section 401	BA:	98	85	95
	O:	103	86	88
Section 402(a)-physicians' fee schedule	BA:	800	2,200	52,800
	O:	800	2,200	52,800
Section 402(b)-Hospitals	BA:	250	30	30
	O:	250	30	30
Section 403-QI-1 program	BA:	25	0	0
	O:	25	0	0
Total, title 4	BA:	1,173	2,315	52,925
	O:	1,178	2,316	52,918
Title 7-Bonneville Power Administration	BA:	0	300	700
	O:	0	60	700
Total, HJRes-2, mandatory	BA:	4,257	2,675	50,535
	O:	4,315	2,911	51,412

Source: CBO, SBC Republican Staff

IMMORTAL SPENDING, MORTAL TAX RELIEF

- Most people think of a budget baseline as a projection of future spending and revenues in accordance with current law – that is, it reflects benefit levels, tax rates, and effective dates (among other things) as they are set out in current law.

- Informed budgeteers know that producing a baseline is not as simple as it may sound. They know that in 1990, section 257 of the Deficit Control Act was amended to direct CBO and OMB to assume that programs with annual outlays of $50 million or more are continued in the baseline, even if they expired under current law.

- Under what circumstances did this rule originate? Prior to 1990, all programs, regardless of their size, were assumed to expire in the baseline if they expired under current law. Remember, this was also a time of Gramm-Rudman-Hollings fixed deficit targets. Projected deficit levels (and possible sequester orders) could be and were influenced by the timing of program reauthorizations, and this gaming concerned good budgeteers.

- Leading up to the 1990 budget summit at Andrews Air Force Base, budgeteers realized that whatever enforcement mechanisms were agreed to, Congress needed to be using a baseline that was consistently constructed by both CBO and OMB and not subject to gimmickry.

- While the largest mandatory programs (Social Security, Medicare, Medicaid) are permanent (never expire under current law), other mandatory programs, such as food stamps and child nutrition, are often authorized for only a limited period of time (for example, five years). But it has historically been the case that Congress does not allow such programs to expire. Mandatory programs scheduled to expire instead may undergo some oversight and may be changed, but they are ultimately extended before they expire.

- With this in mind, budgeteers in 1990 thought that the baseline should reflect the costs of expiring mandatory programs as if extended in their current form. Only legislated changes to the extended program (but not the simple continuation) would be scored with budgetary effects. Budget scorekeepers did not think it would be fair to charge a committee for extending a program, especially since a primary rationale for a limited, rather than permanent, authorization is to guarantee periodic Congressional oversight.

- This way of constructing a baseline worked fairly well, but one thing became clear: all new mandatory programs (if larger than $50 million) would appear to be permanent in the baseline. What if Congress wanted to purposely create a pilot or a temporary program? The baseline would make it appear that the program would continue forever, regardless of Congressional intent.

- As a result, some factions wanted to replace this baseline rule altogether, and others wanted it to continue to apply to all mandatory programs, both old and new. As a compromise, the 1997 Balanced Budget Act amended section 257 (of the Deficit Control Act) to say that the baseline treatment of new mandatory programs created after the 1997 Act would be decided on a case-by-case basis, in consultation with the House and Senate Budget Committees. That way, programs that were intended to be temporary could be assumed to expire in the baseline.

- Despite this revised approach in the 1997 Act, plenty of expiring programs continue in the current baseline. Food stamps, TANF, and SCHIP are some examples. The assumption that expiring spending programs will continue accounts for about $19 billion in outlays in 2004, climbing to $81 billion in 2013 in CBO's January 2003 baseline. Over ten years, programs that expire but are extended in the baseline anyway add $537.2 billion to the projected deficits.

- So much for immortal spending programs. What about mortal tax relief? Revenue projections in the baseline assume that current tax laws follow changes and expirations scheduled to occur under current law. If a tax provision expires at the end of 2004, the baseline will reflect its expiration. The only exception is the expiration of excise taxes dedicated to trust funds (like the gasoline tax), which are assumed to be extended in the baseline (so that the spending, which is assumed to continue in the baseline, has a corresponding revenue source.)

- The authors of the baseline rules spent the bulk of their time thinking about spending and less time thinking about taxes. It is not surprising – at the time, tax provisions that expired were small in terms of their revenue impact, and expiration dates were written in law to assure the provisions would be periodically addressed.

- Remember also that we had not yet entered the era of large tax cuts expiring in the future. This is a situation unique to enacting the 2001 tax relief through the reconciliation process, which necessitated the sunset provisions (because of the Byrd rule requirement that the reconciliation bill not increase outlays or decrease revenues outside the "budget window," as determined by the budget resolution).

- If the tax relief in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) were extended in the baseline, it would add $785 billion to the ten-year (2004-2013) projected baseline deficits. In contrast, if other expiring tax provisions were extended in the baseline (excluding the temporary Job Creation and Worker Assistance Act), the projected deficits would rise by another $152 billion over ten years, with more than one-third due to the research and experimentation tax credit.

- There will be an opportunity later this year to address budget process reform, and interested budgeteers should think about addressing this apparently disparate treatment of spending programs and tax provisions in baseline projections.

COMMITTEE CALENDAR

<u>February 26, 2:30 PM</u>

The President's FY 2004 Budget Proposal for Medicare and Medicaid

Witness: **The Honorable Tommy G. Thompson**
Secretary, Dept. of Health & Human Services

A live broadcast of the hearings can be watched from our website: http://budget.senate.gov/republican